

NCHELP's Program Operations Committee's Default Aversion and Claim Standardization subcommittee (AKA the NCHER Standards and Operations Account Services Team) developed operational guidelines and process expectations to implement the Post-Claim Data Integrity Sampling (PCS) plan, which ED stipulated as part of their approval of the Common Claim Initiative (CCI). These guidelines are also in line with our continuing efforts to standardize processes for FFEL participants and provide assurances through data integrity verification that the data reported on the Claim Form (for the purpose of the PCS plan, the term "Claim Form" refers to both paper and electronic formats) correctly reflects all necessary activities.

In order to ensure and maintain the data integrity of the CCI claim submission process, the PCS plan was submitted April, 2006 to ED for review and approval. That approval was received July 15, 2008.

The plan bases its statistical sampling size on the *Handbook of Sampling for Auditing and Accounting* by Herbert Arkin, using a discovery sampling format. In addition, the plan uses a 10% tolerable error rate and a confidence level of 95%, as supported by this Handbook. The 10% tolerable error rate and confidence level of 95% is the same standard utilized in the Common Review Initiative. This review process ensures the sampling size is sufficient to enable a valid statistical inference as to the accuracy of the claim data.

Post-claim sampling will be conducted by each guarantor separately for each quarter of the federal fiscal year. A year-end reconciliation will be conducted to ensure that all lenders/servicers that have had claims paid will undergo sampling of its claims submitted during the fiscal year.

Post-Claim Data Integrity Sampling Plan Overview

Each guarantor will sample 29 claims randomly selected from the total population of claims purchased during the previous quarter. Each claim submitter identified in a guarantor's sample will provide, to the appropriate guarantor, a copy of the servicing and payment history applicable to each claim. The history provided should substantiate the data reported in the critical fields (see Critical Claim Form Fields document link below) on the Claim Form.



Critical Claim Form
Fields.xls

The servicing and payment history will be compared to the data provided in the critical Claim Form fields. The data integrity comparison process will ensure the data provided at claim filing correctly reflects the servicing activity.

If the data contained in the servicing and payment history matches the data in the critical Claim Form fields, the PCS review is complete. The guarantor will notify the submitter that the review for that quarter is closed.

If any of the data in the servicing and/or payment history does not match the data in the critical Claim Form fields, the guarantor will review the claim using the information from the servicing and/or payment history in the discrepant field(s) to determine if a servicing error has occurred. The guarantor will then notify the submitter of the comparison discrepancies and the results of the review. The submitter will have the opportunity to respond to the discrepancies before the guarantor cites the errors in a final report.

If, during the review using the servicing/payment history information, the guarantor discovers a non-fatal error (see Glossary) that requires an adjustment be made to the insurance payment (i.e. an interest penalty must be assessed), the claim submitter will be required to repay the non-insured amount and an adjustment will be made to reinsurance on Form 2000. Submitters designated as Exceptional Performers will not be required to repay non-insured interest due to a non-fatal error resulting from violations of conversion to repayment, collection due diligence or timely filing, as they are excused from such penalties by federal regulation 34 CFR 682.415(b)(5)(i). However, the error(s) will be discussed with the EP claim submitter(s).

If a fatal error (see Glossary) is discovered during the PCS review, the guarantor will contact the claim submitter to whom the claim was paid and require a repurchase. Submitters designated as Exceptional Performers will not be required to repurchase claims due to fatal errors resulting from violations of conversion to repayment, collection due diligence, or timely filing as EP submitters are exempt from such repurchases under federal regulation 34 CFR 682.415(b)(5)(ii). However, the error(s) will be discussed with the EP claim submitter(s).

In addition, if a fatal error is found, the sample size for the submitter with the fatal error will be expanded in accordance with the next tier of the discovery sampling format (see chart below). The increased sample is to ensure, with a 95% confidence level, that there is no more than a 10% error rate for this submitter. The guarantor will randomly select the additional paid claims from the submitter(s) whose claim(s) contained the fatal error. This process will be followed for each submitter where a fatal error is found, including Exceptional Performers.

Note: The claims included in an expanded sample will be subject to a full PCS review. The review will not be limited to the finding that resulted in the original fatal error.

Example:

Guarantor:

1. Receives the submitter's servicing and payment history.
2. Compares the data in each of the critical Claim Form fields to the data in the servicing and payment history.

3. Guarantor discovers that field #39 (#Mnths Def/Forb) on the Claim Form reports 32/0...however, the submitter's servicing history reflects 22 months of deferment and 0 months of forbearance.
4. Guarantor inserts 22 months in Field #39 and re-reviews the claim using the information from the submitter's servicing history.
5. Guarantor determines there is a 10 month gap in servicing.
6. Guarantor notifies submitter of the discrepant information and what appears to be a fatal error.

Claim Submitter:

1. Researches borrower's history.
2. Discovers only 22 months of deferment were granted.
3. Contacts guarantor and advises that the 22 months of deferment is correct.

Guarantor:

1. Advises submitter of the fatal error due to the 10-month gap in servicing activities without a subsequent cure activity.
2. Increases sample size for that specific submitter.
3. If non-exceptional performer, requests repurchase.

Each guarantor will record the results of its sample testing in a workbook that will be shared with its ED regional office at the end of each fiscal year (see file below). The error codes utilized to note the findings are provided in the Critical Claim Form Fields document.



Post-Claim Sampling
Report.xls

The timeframes below provide a general expectation which will allow the PCS review to be completed in a timely manner. If exceptions are encountered, it may be necessary to deviate from these timeframes. We encourage trading partners to work together to resolve exceptions expeditiously if an expansion of the sampling population is necessary.

Process Timeline:

1. Submitter receives request from the guarantor within two weeks (fourteen calendar days) following the end of the applicable quarter.
2. Submitter will provide servicing and payment histories to guarantor within a three week period (twenty-one calendar days) following receipt of the request.¹

¹ In the unlikely event that the submitter does not provide the servicing and/or payment history, the guarantor will initiate follow-up procedures. If these procedures are not successful the submitter will be placed on monitored claim review status (claim review type 3) and complete servicing and payment histories will be required with all claims submitted.

3. The guarantor will review and respond to submitter within a six week period from receipt of history.
4. If no errors are found the review is complete. The guarantor will contact the submitter in order to “close” the review.
5. If any errors are found, the guarantor will contact the submitter in order to discuss. The submitter may provide additional clarification or explanation as needed.
6. If the submitter is unable to resolve the error, a non-fatal or fatal error (as determined by the error found) will be cited.
7. If a non-fatal error is found, the guarantor will notify the submitter of the final results of the review and the review will be closed unless a financial adjustment is necessary. Any required financial adjustment must be made before the review is closed.
8. If a fatal error is found, the sample will be expanded in accordance with the tier of the discovery sampling format appropriate to the number of fatal errors found and the submitter will provide additional sample history requested (please refer to the chart below and examples provided). In addition, if a financial adjustment is required, it must be completed before the review is closed.
9. The guarantor will review any expanded sample upon receipt of the additional servicing and payment histories following the timeframes above.
10. If one or more fatal errors are identified in the expanded sample, the sample will be expanded again in accordance with the appropriate tier of the discovery sampling format. This expansion will continue as necessary, but only until more than 11 fatal errors have been found for the submitter or the submitter agrees to monitored review status due to a systemic problem expected to result in fatal errors in more than 11 claims.
11. If the threshold identified in #10 above is reached, the submitter will be placed in a monitored review status.

Expected Population Deviation Rate	
0.00	10%
.25	29(0)
.50	46(1)
.75	46(1)
1.00	46(1)
1.25	46(1)
1.5	46(1)
1.75	46(1)
2.00	46(1)
2.25	61(2)
2.50	61(2)

2.75	61(2)
3.00	61(2)
3.25	61(2)
3.50	76(3)
3.75	76(3)
4.00	89(4)
5.00	116(6)
6.00	179(11)
7.00	*

Expanded Sampling Examples Where Fatal Errors Are Discovered:

When fatal errors are discovered during the PCS review, the sample size must be increased. When this occurs, the applicable submitter will have a separate sample drawn and tested. This is necessary because each submitter must meet the minimum standards defined in the PCS plan. If at any point the number of fatal errors exceeds 11, the sampling stops and the submitter is placed on monitored review status. If the guarantor finds the submitter's error rate to be within the acceptable error rate for the number of claims sampled (as indicated in the chart above), the sampling is complete.

The following examples illustrate how expanding the sample will occur.

Example 1:

In the quarterly sample of 29 claims tested, the following results are noted:

Lender	# in Sample	# Fatal Errors	# Non-Fatal Errors
Submitter A	15	0	1
Submitter B	4	1	0
Submitter C	4	0	0
Submitter D	3	0	0
Submitter E	3	0	0
Totals	29	1	1

Based on the results of the quarterly review, the sampling must be expanded for Submitter B as a fatal error was found. Because one fatal error was found, to maintain the statistical inference for Submitter B (i.e., 10% error rate with a 95% confidence level) as required in the PCS plan, Submitter B must submit servicing and payment histories for an additional 42 claims. (This number is derived by determining the next sampling tier when one error is discovered, which requires a total of 46 claims to be reviewed for Submitter B. Since four claims were already reviewed in the initial quarterly sample, an additional 42 claims must be pulled and reviewed, and Submitter B would be required to submit servicing and payment histories for those additional claims.) The loan with the fatal error from the original sample must also be repurchased by Submitter B unless Submitter B is an Exceptional Performer and the fatal error resulted from an error associated with conversion to repayment, collection due diligence, or timely filing.

Submitter A also had an error, but it was a non-fatal error, thus the sample size is not increased for Submitter A. However, Submitter A must be contacted and notified of the error, and if any adjustment needs to be made to the insurance payment, Submitter A will be required to repay the non-insured amount unless Submitter A is an Exceptional Performer and the insurance adjustment is linked directly to a conversion to repayment, collection due diligence, or timely filing error. The guarantor will also need to adjust reinsurance on Form 2000 upon receipt of the insurance adjustment.

Example 2:

Using the same table as above with the same results from the original sampling, Submitter B submits servicing and payment histories for 42 additional claims. During the guarantor's review of the additional 42 claims, two more claims contained fatal errors. Because two more fatal errors were discovered, the sample must again be increased for Submitter B. Using the sampling table, the total number of claims that must now be reviewed is 76. Thus, Submitter B must now submit an additional 30 claims to be reviewed. If during the review of the additional 30 claims more fatal errors are discovered, the sample must again be increased to the next tier level.

Systemic Errors

If, during the sampling process, a fatal error is found to be systemic and the submitter agrees, an expansion of the sample is not required. The submitter will be placed on monitored review status.

Submitters in Monitored Review Status

If during a quarterly sampling a guarantor identifies more than 11 fatal errors or the submitter agrees to monitored review status due to a systemic problem, the submitter will be placed on a monitored claim review status by the guarantor.

Submitters designated as Exceptional Performers will also be placed in monitored review status in these circumstances. However, EP claim submitters will not be required to make financial adjustments or be denied claim payment due to fatal errors associated with conversion to repayment, collection due diligence, or timely filing as EP claim submitters are exempt from such penalties by federal regulation. The EP claim submitter will continue to be paid at the 99% insurance rate for all loans meeting the EP requirements.

Year End Reconciliation Process

After samples are selected for the fourth quarter of the federal fiscal year, each guarantor will:

1. Run a report that lists a) each submitter to whom claims were paid during the previous 12-month period (i.e., the federal fiscal year), and b) list the number of

claims sampled for each submitter in the Guarantor Year-End Claim Statistics document:



Guarantor Year-End
Claim Statistics.xls

2. This report must be forwarded to the CCI-PCS workgroup for compilation within two weeks (14 calendar days) of the federal fiscal year end (i.e. quarter ending September 30th, data due to the workgroup no later than October 14th). Each guarantor will send the report in an email to ccipcs@ncher.us. From this information, the CCI-PCS workgroup will determine which submitter(s) to whom claims were paid, but were not sampled by any guarantor. The workgroup will then determine which guarantor(s) will be responsible for performing an additional review based on percentages of claims paid and will forward this information to the appropriate guarantor(s) by November 1st.
3. Each guarantor will then be responsible for pulling their own sample based on the population that they paid a given submitter, to total 29 (or fewer if, as a community, fewer than 29 claims were paid to the submitter).
4. The sample will be provided to the appropriate submitter(s) within two weeks (14 calendar days) from receipt of the year-end data from the workgroup.
5. Submitter will provide servicing and payment histories to guarantor within a three week period (21 calendar days) following receipt of the request.
Guarantor will conduct review per the above process timeline, steps 3 through 8.
Note: If a fatal error is discovered in a year-end sample, the guarantor that discovered the fatal error will be required to increase the sample in accordance with CCI PCS established procedures.
6. All quarterly and year-end review results should be reported to a guarantor's appropriate Education Department (ED) regional office with a cc: to the ED liaison (Chandra Smith, Chandra.Smith@ed.gov), no later than March 31st following the end of the previous federal fiscal year, utilizing the Post-Claim Sampling Report Excel file.
7. All sample and summary information will be maintained by guarantors following normal record retention requirements.
8. The compilation data from the year-end reconciliation process (step 2 above) will be maintained on the NCHER secure SharePoint site. A copy of the compilation report will also be submitted to the ED liaison (Chandra Smith: Chandra.Smith@ed.gov) by the CCI-PCS workgroup to provide evidence that all submitters of paid claims had at least one claim sampled for the fiscal year.

Glossary of Post Claim Sampling Terms

Critical Claim Fields: Fields on the Claim Form or its electronic equivalent identified on the “Critical Claim Form Fields” document that must be compared to the submitter’s servicing and/or payment history from which the data in those fields were transferred.

Data Integrity: The condition existing when data reported is unchanged from its source.

Data Integrity Verification: The process of comparing the data provided in the critical Claim Form fields to the submitter’s servicing and/or payment history from which that data was transferred.

Fatal Error: A fatal error occurs when data entered in the critical Claim Form fields does not match the data on the servicing/payment history and, after the claim has been reviewed using the new data from the submitter’s history (using CCI edits only), a loss of guarantee is identified.

Monitored Review Status: A claim review process that requires submitters to provide additional information or history to support data provided in certain critical fields on the Claim Form that in previous claim filings resulted in fatal errors during a PCS review. The guarantor will require the additional information or history until the guarantor and the submitter agree that the appropriate corrective action has been implemented. This status is applicable to a submitter for which the guarantor has identified more than 11 fatal errors as well as a submitter who has agreed to a monitored review status due to a systemic problem.

Non-Fatal Error: A non-fatal error occurs when data entered in the critical Claim Form fields does not match the data on the servicing and/or payment history and, after the claim has been reviewed using the new data from the submitter’s history (using CCI edits only), a data entry, servicing or financial error(s) is identified but the guarantee remains intact.

Payment History: History that supports the financial information on the Claim Form and shows the date and amount of each payment received from or on behalf of the borrower, and the amount of each payment that was applied to principal, interest, late charges and other costs.

Servicing History: History that reports all submitter activities in the administration of the loan